

GAO

Report to the Chairman, Committee on
International Relations, House of
Representatives

April 1999

UNITED NATIONS

Progress of
Procurement Reforms



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National Security and
International Affairs Division

B-281996

April 15, 1999

The Honorable Benjamin A. Gilman
Chairman, Committee on International Relations
House of Representatives

Dear Mr. Chairman:

Procurement at the United Nations Secretariat has been criticized for its lack of accountability, fairness, and competition as well as its failure to provide goods and services on time. In response to these criticisms, the U.N. Secretary-General established a High Level Expert Group on Procurement in 1994 to examine the Secretariat's procurement system. The Expert Group developed comprehensive recommendations to create a procurement system that ensured accountability, fairness, competition, and the economical and timely delivery of goods and services.¹ Altogether, its 36 recommendations aimed at creating a dynamic system that could continuously improve its performance. While the U.N. Secretariat has responded to the Expert Group's recommendations, allegations of procurement irregularities continued to come to your attention.

As agreed with your office, this report discusses the U.N. Secretariat's efforts to reform its procurement system, which annually purchases about \$400 million of goods and services for U.N. headquarters in New York, field missions, and other offices. Specifically, we (1) identified the types of procurement problems that the Expert Group and U.N. audit and inspection organizations found, (2) assessed progress on the implementation of the Expert Group's recommendations and other reforms to correct procurement-related problems, and (3) assessed whether these actions have succeeded in achieving the objectives of procurement reform.

As an agency of the United States, we do not have authority to audit directly the operations of the United Nations. For this report, our assessment is based on reports by the U.N.'s audit and oversight organizations, supplemented by publicly available documents, interviews with U.N. officials, and testing of some reforms. (See app. I for further details about our report's scope and methodology.)

¹High Level Expert Group Procurement Study Report (New York, N.Y.: United Nations, Dec. 1994).

Results in Brief

The U.N. Board of Auditors, the U.N. Office of Internal Oversight Services, and the High Level Group of Experts have pointed out numerous problems in the operations of the U.N. Secretariat's procurement system. These problems involved issues concerning all elements of an effective procurement system, such as lack of competition, with over 50 percent of contracts not competed in the past, and accountability, with confusion over responsibility and authority leading to inconsistent application of rules. Many of these findings refer to the period prior to 1996, but some findings have been more recent. To correct these and other problems, the Secretariat established a High Level Expert Group on Procurement. In 1995, the Secretariat adopted the Expert Group's recommendations as the framework for procurement reform and since then has made considerable progress in implementing the recommendations and taken other action to improve its procurement system. For example, evidence developed by U.N. audit and inspection organizations indicates that the Secretariat has strengthened accountability by designating clear lines of authority, improved competitive practices by increasing the percentage of contracts that are awarded through competitive bid, and strengthened the fairness of the process by publishing common specifications for goods procured by the U.N. system.

While the Secretariat has made progress in reforming its procurement system, action in several areas is incomplete, and the overall systemic objectives sought by the High Level Expert Group have not yet been achieved. For example, the Secretariat has not established formal procedures to address and adjudicate vendors' grievances, including appointment of an independent ombudsman to help ensure fairness and openness when issues about U.N. procurement procedures are raised. Also, while the Secretariat now competes most contracts, competition is still not completely open because sufficient time is sometimes not given for vendors to prepare bid proposals. Other steps recommended to help ensure transparency and accountability, such as developing a procurement manual for all to use, are partially completed. Also, the Expert Group's overarching objective was to create a continuously improving procurement system. However, achieving this objective will be difficult until the Secretariat has developed performance measures to indicate whether it is reaching its targets on (1) timeliness in processing requisitions, (2) on-time delivery of goods and services, and (3) quality and cost of contract performance.

Background

Each organization within the U.N. system, such as the World Health Organization and the United Nations Development Program, procures goods and services in accordance with its own financial rules and regulations and procurement procedures. (See app. II for a diagram of the U.N. system.) More than 30 procurement offices procure approximately \$2.9 billion of goods and services for these organizations annually. Procurements by the U.N. Secretariat are conducted by its Procurement Division, which in 1997 procured \$310 million of goods and services while peacekeeping and other field missions procured about \$120 million.

Commonly Identified Characteristics of Effective Procurement Systems

Several organizations have identified characteristics of an effective procurement system. For example, the U.N. system organizations identified such characteristics, which were published by the U.N.'s Interagency Procurement Services Office (IAPSO)² in The Common Guidelines for Procurement by U.N. Organizations. This publication states that the objective of procurement within the U.N. system is the timely acquisition of goods, works, and services while addressing (1) the objective of the U.N. organization concerned; (2) fairness, integrity, and transparency through competition; and (3) economy, effectiveness, and best value for money. The guidelines were intended to communicate basic principles for procurement by U.N. organizations and harmonize U.N. system procurement procedures. The Organization for Economic Cooperation and Development (OECD) identified similar characteristics for an effective public procurement system.³ Its December 1997 policy brief states that a public procurement system should, among other things, (1) employ open competition; (2) ensure that the selection of bidders, tendering procedures, and the awarding of contracts are open to public examination and scrutiny by external audit authorities; (3) incorporate a legal and administrative framework that defines the financial and legal responsibilities of all

²IAPSO is an office under the oversight of the U.N. Development Program's executive board and is funded by the development program and by the procurement services it offers. IAPSO's mandates are to conduct research and development activities in the area of procurement for U.N. organizations and to provide a wide range of procurement services, including advisory services on procurement, direct procurement, and procurement training for U.N. member states and organizations.

³Support for Improvement in Governance and Management Policy Brief 3: Public Procurement (Paris, France: OECD, Dec. 1997). This publication is the result of an ongoing joint initiative of the OECD Center for Cooperation with Economies in Transition and the European Union's PHARE Program. The OECD is a forum of industrialized democracies that studies and formulates policies in all economic and social spheres.

participants in the procurement process; (4) employ well-trained staff; and (5) ensure that it achieves good value for money in public expenditure.

The Expert Group also used a similar set of characteristics as the underlying objectives in developing its report and recommendations to reform the U.N. procurement system.⁴ These characteristics, discussed in both the Expert Group report and in a report that was used by the Expert Group,⁵ included:

Integrity - public confidence earned by avoiding any conflict of interest, maintaining impartiality, avoiding preferential treatment for any group or individual, and dealing fairly and in good faith with all parties. (Aspects of this include development of a fair and impartial roster of qualified vendors and using standard procedures consistently in procurements.)

Openness - policies and procedures available to and understood by all sources and an acceptable procedure available to redress grievances of vendors. (Aspects of this include clear written policies, a procurement manual, standard operating procedures, and a formal clear bid protest process.)

Accountability - clear lines of procurement responsibility and authority, set with effective policy direction and audit capabilities established. (Aspects of this include clear and specific written authorities and delegations of authority and strengthened oversight.)

Professional workforce - competent workforce responsive to mission requirements, with continued review and training to improve individual and system performance. (Aspects of this include ensuring a competent and knowledgeable workforce through professional training programs and curriculums, keyed to a career procurement track.)

⁴The Expert Group was composed of senior officials from Brazil, France, Malaysia, South Africa, Sweden, the United Kingdom, and the United States who had expertise in and responsibility for managing procurement, finance, and logistics operations in their countries. Among the members were a senior logistics manager for Military Logistics, United Kingdom; the Inspector-General of Finance for Brazil; and the Director, Commodity Division, U.S. Agency for International Development.

⁵Alan Burman, Constraining Costs and Improving the Efficiency of United Nations Peacekeeping Procurement Operations (Washington, D.C.: U.S. Office of Management and Budget, Sept. 9, 1994). This study contained the characteristics of an effective procurement system that the United States identified for the OECD and that the OECD subsequently adopted in its efforts to provide a framework for public procurement systems in emerging democracies.

Competition - specifications that do not favor a single source and solicitations widely publicized to benefit from the efficiencies of the commercial marketplace. (Aspects of this include open competition for procurement as the norm and all contract activity and awards to be publicly advertised.)

Value - quality, timeliness, and cost fairly considered to ensure contracts best meet needs. (Aspects of this include determining requirements and planning for the procurement to take advantage of economies of scale and measuring performance to ensure efficiency in processing purchases and contractor performance.)

We use these six characteristics as the organizing framework to report on the types of procurement problems the United Nations experienced, our assessment of the progress the Secretariat has made in carrying out the Expert Group recommendations and other reform actions, and our assessment of whether these actions have achieved the objectives of the Expert Group. (See app. I for further detail on the work we did to ensure these were commonly accepted characteristics of an effective procurement system.)

U.N. Oversight Bodies Have Identified Procurement System Problems

The U.N. Board of Auditors (board), the U.N. Office of Internal Oversight Services (OIOS), and the High Level Group of Experts have pointed out numerous problems in the operations of the U.N. Secretariat's procurement system. These problems involved issues concerning all elements of an effective procurement system. Many of these findings refer to the period prior to 1996, but some findings have been more recent.

Integrity

The Expert Group and U.N. audit agencies found practices that undermined the fairness and impartiality of the procurement system. For example, OIOS reported that in some locations contracts were awarded to a limited number of vendors without evidence of a market survey, assessment of competitive quotations, or evaluation of vendor performance.⁶ Further, the Expert Group concluded that problems with

⁶Audits of the Regional Commissions, OIOS (A/52/776) (New York, N.Y.: United Nations Jan. 27, 1998); Audit of Procurement Handled by the Contracts and Procurement Service of the United Nations Department for Development Support and Management Services, OIOS (A/50/945) (New York, N.Y.: United Nations, Apr. 30, 1996).

the vendor roster undermined the integrity of the system. The roster, which lists vendors from whom U.N. officials solicit bids and quotations, is prepared by obtaining from member states and business groups the names of potential suppliers, reviewing their qualifications, and finalizing the list of qualified vendors for use by the Secretariat. The Expert Group found the roster was outdated, inaccurate, and not common to all locations and concluded that the inconsistent and nonstandardized list exposed the procurement system to abuse, self-interest, and fraud. Another problem the board reported was that offices requisitioning goods and services had too much influence on the selection of vendors.⁷ This raised questions of conflicts of interest in the process, since the procurement office is charged with maintaining independence in the selection of vendors and is not to be pressured by other parties, including the requisitioning office.

Openness

The Expert Group, the board, and OIOS also noted problems related to the openness and transparency of the system. The Expert Group found that policies and procedures were inconsistent, unclear, and not available to all involved in the bidding process, including both vendors and procurement officers. In 1995, the board and OIOS reported that policy and procedures statements and manuals on procurement were lacking and the available regulations were too cumbersome to be of practical use. For example, OIOS reported that guidance in the Department of Peacekeeping Operations did not provide information on procurement procedures for procurement staff to use on a day-to-day basis. OIOS also reported that 50 percent of the procurements they reviewed did not meet the requirements for sealed bids and public bid openings or were not communicated to vendors. (App. III contains a flowchart of the Secretariat's procurement process.) At the same time, the procurement system lacked an ombudsman or impartial bureau to hear vendor complaints and ensure fair treatment.

Accountability

According to the Expert Group, clear lines of authority and responsibility, as well as charts that clearly indicated which officials were responsible for specific tasks, were lacking. Similarly, the board's 1994-95 biennial report stated that adequate lines of authority, supervision, and accountability had not been established and that appropriate internal control systems needed

⁷Financial Report and Audited Financial Statements for the Biennium Ended 31 December 1993 and Report of the Board of Auditors, Vol. I (A/49/5) (New York, N.Y.: United Nations, July 29, 1994).

to be established within the Procurement Division. In addition, the Advisory Committee on Administrative and Budgetary Questions found that there were no guidelines on the composition and procedures for the Headquarters Committee on Contracts.⁸ The Committee is supposed to review all contracts exceeding established thresholds to ensure rules and regulations are followed and there is consistency between the bid evaluations and the final decision. The board stated in its report on the 1994-95 biennium that 57 percent of the contracts for the Department of Peacekeeping Operations and 23 percent of the contracts for the remaining Secretariat departments were reviewed only after they had been signed. In a 1996 audit, OIOS also found a lack of documentation on vendor qualifications, financial status, and past performance, making it difficult for auditors to determine whether vendors had been selected in accordance with U.N. financial rules and regulations.⁹

Professional Workforce

The Expert Group and U.N. audit organizations found the procurement staff lacked the requisite knowledge of procurement procedures and regulations. For example, in its report on the 1992-93 biennium, the board found that although some training events had taken place, there were no formal training arrangements for staff involved in procurement activities and that very few staff in the procurement services had any recognized qualifications in procurement. Likewise, in its 1994 study, the Expert Group determined that U.N. staff assigned to procurement activities were largely ill-prepared, untrained or inadequately trained, and inexperienced. It stated that staff expertise was extremely low, staff roles and responsibilities were not aligned with mission requirements and staff job descriptions, and specific duties were unclear. Further, in 1995, OIOS identified as one of the general problems of the procurement function a lack of proper training and experience by some procurement officers.¹⁰

⁸ The Advisory Committee on Administrative and Budgetary Questions examines and reports on the regular and peacekeeping budgets and accounts of the United Nations and the administrative budgets of the specialized agencies (see app. II).

⁹ Audit of Procurement Handled by the Contracts and Procurement Service of the Department for Development Support and Management Services.

¹⁰ Report of the Office of Internal Oversight Services for the Period 11/15/94 to 6/30/95, OIOS (A/50/459) (New York, N.Y.: United Nations, Oct. 2, 1995).

Competition

The U.N. audit organizations found that the U.N. Secretariat did not effectively compete procurements in the early and mid 1990s. Similarly, a 1996 OIOS report on the then-Contracts and Procurement Service of the Secretariat's Department for Development Support and Management Services disclosed that in 46 percent of the cases, the technical specifications were either restrictive in nature or pointed toward a sole-source vendor.¹¹ Thus, the specifications precluded or otherwise made extremely difficult a valid, practical, competitive bidding process. The board outlined a pattern of poor competitive practices in its reports on the 1988-89, 1990-91, 1992-93, and 1994-95 bienniums.

Value

The Expert Group and U.N. audit organizations also discovered that U.N. Secretariat procurement practices frequently did not incorporate or emphasize quality, timeliness, and other aspects of value in their procurements. For example, the Expert Group said that having precise specifications for goods and services was the basis for ensuring best value. It found, however, that bid specifications were unclear and lacked specificity and quality measures, making bid proposals impossible to compare. The Expert Group also found that procurement planning was not done; thus, the Secretariat could not take advantage of bulk purchases and planned acquisitions. Other practices limited obtaining better value. For example, the board reported in its 1992-93 biennial report that the use of a relatively narrow range of suppliers created an environment where it was unlikely that the United Nations was achieving the best value for its money.¹² Also, in 1997, an OIOS report found in one location that inadequate control over the hiring of consultants led to higher fees and insufficiently qualified personnel.¹³

¹¹Audit of Procurement Handled by the Contracts and Procurement Service of the Department for Development Support and Management Services.

¹²Financial Report and Audited Financial Statements for the Biennium Ended 31 December 1997 and Report of the Board of Auditors, Vol. I (A/49/5).

¹³Review of the Program and Administrative Practices of the U.N. Center for Human Settlements (Habitat), OIOS (A/51/884) (New York, N.Y.: United Nations, Apr. 23, 1997).

Reform Measures Taken to Improve the Procurement System

The Secretariat has made considerable progress in implementing the recommendations proposed by the High Level Expert Group and taken other steps to reform the procurement system. As the first step in addressing its procurement problems, the Secretariat accepted the 36 recommendations of the Expert Group as the framework for its reform efforts. These recommendations included designating clear lines of responsibility and authority for procurement functions, drafting a procurement manual available to all parties, and developing a training curriculum for procurement staff. In June 1995, the Secretariat reported that some actions had already been taken, and it listed additional future steps to implement the plan.¹⁴ In March 1996, the U.N. Advisory Committee on Administrative and Budgetary Questions endorsed the Expert Group's recommendations and stated that procurement reform was of fundamental importance for reestablishing the confidence of the member states in the integrity of U.N. Secretariat procurement operations,¹⁵ and in December 1996 the Committee reported to the U.N. General Assembly on progress being made by the Secretariat.¹⁶ In November 1998, the Advisory Committee noted that information from the Secretary-General showed considerable progress in implementing the recommendations of the Board of Auditors and the High Level Expert Group.

Integrity

The Advisory Committee noted that in the area of strengthening the integrity of the system, the Secretariat had purged the old roster of vendors and was updating and expanding the new roster, had laid out the main criteria for evaluating suppliers, and had developed common specifications for goods used throughout the U.N. system. The Secretariat also took steps to ensure that requisitioning offices did not unduly influence the bid process, such as requiring the concurrence of the Chief of the Procurement

¹⁴Review of the Efficiency of the Administrative and Financial Functioning of the United Nations: Progress in the Implementation of Procurement Reform in the U.N. Secretariat. Report of the Secretary-General (A/C.5/49/67) (New York, N.Y.: United Nations, June 25, 1995).

¹⁵The Implementation of Procurement Reform in the U.N. Secretariat. Fourteenth Report of the Advisory Committee on Administrative and Budgetary Questions (A/50/7/Add. 13) (New York, N.Y.: United Nations, Mar. 8, 1996).

¹⁶Review of the Efficiency of the Administrative and Financial Functioning of the United Nations: Procurement Reform. Fourth Report of the Advisory Committee on Administrative and Budgetary Questions (A/51/7/Add. 3) (New York, N.Y.: United Nations, Dec. 4, 1996).

Division to allow bids from vendors that had been recommended by the requisitioning office.

Accountability

Steps taken in the area of increasing accountability included reorganizing the procurement function to eliminate overlapping responsibilities and to designate clear lines of authority for procurement. For example, prior to the reorganization, authority for procurement was not centralized within the Secretariat, but after reorganizing, all procurement is to be conducted under the authority of the Procurement Division. At headquarters, procurement is undertaken under the authority of the Assistant Secretary-General for Central Support Services, who delegates this authority to the Procurement Division and the field. In the field, Directors-General of some offices have delegated this authority, and the Assistant Secretary-General clarified the authority and responsibility of field offices by specifying the field officials that could approve contracts and increasing the allowable contract amount field offices could approve from \$70,000 to \$200,000. Also, the committees required to review contracts before approval, both at headquarters and in the field, were strengthened by (1) selecting a full-time permanent chair for the headquarters committee and (2) specifying the committees' working methods and policy guidelines for required reviews. The Secretary-General further reported that the requirements for contract approval were being followed more closely than in the past. For example, the number of contracts awarded before required review by the Headquarters Committee on Contracts decreased from 47 percent in 1995 to 3.4 percent for the Secretariat and 2.8 percent for peacekeeping procurement in 1998.¹⁷

Competition

Competition has also been strengthened. In 1998, the scope for competitive contracting was significantly increased by adding professional services, medicines, medical supplies, and hospital or surgical supplies to the list of items subject to the open bidding process. Both invitations to bid and contract awards are publicized electronically on the internet, and the percentage of procurements that were competitively bid increased from 31 percent in 1994 to 73 percent in 1998.

¹⁷Procurement contracts that are awarded and then reviewed after the award are termed *ex post facto* contracts. Current regulations require that contracts equal to or greater than \$200,000 be reviewed by the Headquarters Committee on Contracts before they are awarded.

Other Areas of Improvement

The Secretariat has taken action on several of the other recommendations of the Expert Group. For example, the Secretariat has provided procurement staff, particularly at headquarters, training seminars on cost and price analysis, conflict resolution, and the new U.N. information system. There is some evidence the steps taken have improved the headquarters workforce. For example, in 1998, OIOS examined a sample of personnel files and found that following a period of high turnover, 90 percent of the headquarters procurement staff now had procurement-related qualifications, including government and military procurement experience. OIOS also found that senior officers at headquarters had an average of 17 years of procurement experience, and it concluded that the vast majority were qualified to do their jobs. Also, according to board officials, the quality of the workforce at U.N. headquarters has improved due in part to the training.

Outstanding Procurement Reform Issues

Although the Secretariat has taken some action on almost all recommendations of the Expert Group and improved the procurement system, several reform measures remain incomplete, and the objective of creating an effective procurement system with the capacity to continuously improve has not yet been achieved. Recommendations or reform actions that have been partially implemented fall in the areas of integrity and openness, professional workforce, competitive practices, and value.

Integrity and Openness

The Expert Group recommended that to help ensure the integrity and openness of the system, an independent complaints bureau/ombudsman be established to adjudicate vendor grievances. As of January 1999, formal procedures for the grievance process had not been developed. Since formal procedures were lacking, cases may be treated inconsistently, and vendors may be treated unequally. Also, the ombudsman function is not fully independent but is being carried out by the Under Secretary-General for Management and the Assistant Secretary-General for Central Support Services. The Secretariat has stated that one or the other official—the one who is not involved in a particular case for which a grievance arises—would review the grievance. According to OIOS, it is questionable whether these officials can act as impartial judges. In this regard, there is a direct line of authority from the Chief of the Procurement Division to the Assistant Secretary-General, who reports to the Under Secretary-General. According to a private sector expert on procurement and the Deputy Assistant Administrator for Acquisition Policy for the U.S. government's

General Services Administration, to avoid the appearance of a conflict of interest, the ombudsman should not be in the reporting chain of the officials potentially involved in the cases he or she reviews.

In providing openness and transparency, the procurement manual has shortcomings. The Secretariat developed a procurement manual in response to the Expert Group's recommendations. However, the manual does not include a mission statement, clear explanations of policy, or detailed, step-by-step discussions of procedures required for field personnel to perform their duties, as recommended. According to the Expert Group and other procurement experts, a clear and complete procurement manual is essential to an open procurement system because policies, regulations, and the procurement process need to be available to all sources and must be sufficiently clear and detailed for all sources to understand them. Secretariat officials we spoke to acknowledged the weaknesses in the current manual and are considering revisions. They also stated that the manual is subject to regular review and revision.

Professional Workforce

Although the Secretariat has provided training courses to procurement staff, these courses do not constitute a comprehensive curriculum to provide a continuum of basic to advanced skills for the development of procurement officers, as recommended by the Expert Group. A 1998 OIOS report further found a mixed level of professional experience among procurement personnel. While over 90 percent of a sample of headquarters procurement staff had procurement-related qualifications or experience, only 62 percent of a sample of field staff had U.N. or outside procurement experience.¹⁸ OIOS recommended that training needs be identified and a formal, procurement-specific training program be created. Also, in the view of board officials, training for peacekeeping staff in the field continues to be a problem. As a result, the board viewed field-level procurement practices as a high-risk area. Without a more systematic approach to training, the Secretariat cannot ensure that procurement is carried out by a competent workforce capable of meeting mission requirements.

Secretariat officials told us in January 1999 that an effort was under way to improve the training and career path opportunities of U.N. system

¹⁸Report of the Secretary-General on the Activities of the Office of Internal Oversight Services. (A/52/813) (New York, N.Y.: United Nations, Mar. 5, 1998).

procurement officials. The Secretariat and other U.N. organizations are developing a system to share and coordinate training resources. Likewise, procurement staff are expected to be rotated among U.N. organizations and field missions in an effort to share their knowledge, broaden their experiences, increase their proficiency, and provide them with a career path.

Competition

Although the Secretariat has strengthened competitive practices in its procurements, there are still weaknesses in ensuring open competition. For example, in the 1996-97 biennial report, the board noted that no uniform pattern existed in the amount of time suppliers would be given to prepare and submit a bid.¹⁹ Nor could the board find any relationship between the size and complexity of contracts and the amount of time given for bid preparation. For example, some contracts valued over \$200,000 allowed only 4 weeks for bid preparation, while smaller contracts allowed a longer period. Board officials emphasized that the lack of guidelines setting out minimum times for the bidding period could lead to noncompetitive practices. The board also found that open tendering for major procurements above \$500,000 was rarely used.

Recent OIOS audit reports found weaknesses in compliance with regulations on competition. A 1998 OIOS report covering a series of audits conducted between June 1996 and December 1997 on procurement in the U.N. Angola Verification Mission found that goods were procured from a restricted group of middlemen at higher prices under doubtful circumstances.²⁰ OIOS also reported that in several instances, the Mission's procurement section interfered in the requisitioning process. As a result of this interference, requisitions were split and processing was delayed. The splitting of requisitions allowed the bypassing of normal procurement procedures and of scrutiny by the Local and Headquarters Committees on Contracts. The transactions were investigated from 1995 to 1997 and OIOS reported in April 1998 that action to correct some of the issues had taken place but action on the remaining issues needed to be closely monitored for completion. In a January 1998 audit of the U.N. Regional Commissions, OIOS found that at one of the four commissions,

¹⁹Financial Report and Audited Financial Statements for the Biennium Ended 31 December 1997 and Report of the Board of Auditors, Vol. I (A/53/5) (New York, N.Y.: United Nations, July 30, 1998).

²⁰Report on the Audits of the Procurement Process in the U.N. Angola Verification Mission, OIOS (A/52/881) (New York, N.Y.: United Nations, Apr. 28, 1998).

purchase files contained no evidence of a market survey or an assessment of competitive quotations, except in a few major cases.²¹ Board officials told us in January 1999 that these infractions were issues of compliance rather than systemic internal control problems, since clear rules and regulations are in place.

Value

Two key reform actions to ensure the Secretariat receives the best value for its money have not been implemented. First, the Expert Group called for the development of performance measures to monitor both the internal work processes, such as timeliness in preparing requisitions and vendor performance for quality, cost, and on-time delivery. However, as of January 1999, Secretariat officials had not developed performance measures for the procurement system, except for procurement operating costs as a percentage of total procurement costs. Other measures of performance might include purchase order cycle time and average annual training hours per professional employee.²² According to procurement experts, such measures are fundamental to developing an effective procurement system and are used routinely in government and private sector organizations. Without such performance measures, the Secretariat will find it difficult to assess the effectiveness of its procurement system or to continuously improve its performance.

A second reform action to enhance value was to introduce procurement planning so that purchases could be planned in advance. In August 1998, the Secretariat endorsed procurement planning—a requisite over the long term for ensuring best value for the money.²³ Before that date, the Secretariat had taken the position that, particularly for peacekeeping missions, procurement planning was not feasible. In January 1999, OIOS officials said they had yet to see procurement planning occur. A senior Secretariat official said the Secretariat had taken initial steps to begin procurement planning, such as incorporating planned procurements in

²¹Audits of the Regional Commissions, OIOS (A/52/776) (New York, N.Y.: United Nations, Jan. 27, 1998).

²²Examples of benchmarking are contained in the following two publications: Cross-Industry Comparison of Standard Benchmarks (Tempe, AZ: Center for Advanced Purchasing Studies, Winter 1997-98); and Guide to a Balanced Scorecard: Performance Management Methodology (Washington, D.C.: Procurement Executives' Association, 1998).

²³Report of the Secretary-General: Procurement Reform (A/53/271) (New York, N.Y.: United Nations, Aug. 18, 1998).

future estimated budget submissions. However, a systemic planning process would not be in place until later in 1999.

Conclusions

The Secretariat has responded to the challenge of reforming its procurement system and made improvements. However, the Secretariat has not fully implemented several reform measures that would help ensure the procurement system is open, fully competitive, and provides the best value for its money. The Secretariat also has not developed performance measures that would allow it to take corrective action and continuously improve.

Agency Comments and Our Evaluation

The Department of State and the United Nations provided written comments on a draft of this report. The Department of State agreed with our observations concerning the work that remains to be done in U.N. procurement reforms, such as formalization of procedures for handling bid protests. However, State and the United Nations believe that the U.N.'s progress should have been better highlighted in our report, that significant progress had been made in procurement reform, and that the structure and tone of the report downplayed the progress achieved. The United Nations commented that reform is an ongoing process and it would continue its procurement reforms. It further commented that the report overemphasized past problems rather than measures taken to address them and that we could have developed a more comprehensive review of the subject through more substantial research of publicly available documents such as those of the General Assembly, which reflected the discussions of the legislative bodies. In this regard, the United Nations stated that it had made significant progress on the major system issues identified by the High Level Expert Group and that it was working on the few remaining operational issues to improve compliance.

Our report discusses examples of progress in the first paragraph of our Results in Brief and devotes a section of the report to progress that we could substantiate. We also state several times in the report that the U.N. Secretariat has made considerable progress in improving its procurement system. However, we balance the findings of progress against findings based on OIOS and other oversight organizations' reports, as well as testing of our own, that some reform recommendations that affect the performance of the entire system have not been implemented or are incomplete. Our analysis, as well as interviews with U.N. officials,

indicates that the issues that have not been fully implemented are not merely compliance concerns but rather affect the procurement system. For example, the lack of performance measures, a training curriculum, formal grievance procedures, and a comprehensive planning process affect overall procurement system operations and indicate that the United Nations has yet to achieve the Expert Group's baseline objective of creating a procurement system with the capacity to continuously improve and provide goods and services on time as cost-effectively as possible.

State and U.N. officials also provided technical comments, which we have incorporated in the report as appropriate. The comments of the Department of State and the U.N. Secretariat are reprinted in their entirety in appendixes IV and V, respectively.

We are sending copies of this report to the Honorable Madeleine K. Albright, the Secretary of State; the Honorable A. Peter Burleigh, the acting Permanent Representative of the United States to the United Nations, the Honorable Kofi Annan, the Secretary-General of the United Nations; and other interested congressional committees. Copies will be made available to others on request.

Please contact me at (202) 512-4128 if you or your staff have any questions about this report. Major contributors to this report are listed in appendix VI.

Sincerely yours,

A handwritten signature in cursive script, reading "Harold J. Johnson".

Harold J. Johnson, Associate Director
International Relations and Trade Issues

Contents

Letter	1
Appendix I Scope and Methodology	20
Appendix II The U.N. System	23
Appendix III The U.N. Secretariat's Procurement Process	25
Appendix IV Comments From the Department of State	28
Appendix V Comments From the U.N. Secretariat	30
Appendix VI Major Contributors to This Report	34
Tables	Table III.1: Steps in the Secretariat's Procurement Process 27
Figures	Figure II.1: The U.N. System 24 Figure III.1: Flow Chart of the Secretariat's Procurement Process 26

Contents

Abbreviations

IAPSO	Inter-Agency Procurement Services Office
OECD	Organization for Economic Cooperation and Development
OIOS	Office of Internal Oversight Services

Scope and Methodology

We conducted our work at the U.N. headquarters in New York City and at the Department of State in Washington, D.C., including the U.S. Mission to the United Nations in New York. Our scope was limited to examining the U.N. Secretariat's procurement system, which includes procurements for U.N. peacekeeping missions; we did not examine procurement at the other agencies, funds, and programs of the U.N. system. We interviewed officials from and reviewed documents from the U.N. Secretariat, the U.N. Board of Auditors, the U.N. Office of Internal Oversight Services (OIOS), the General Assembly, and the U.S. Mission to the United Nations about the Secretariat's procurement problems, reform history, and current status. We also reviewed a report issued by the U.S. government on problems in procurement for U.N. peacekeeping and reports by the U.N. Advisory Committee on Administrative and Budgetary Questions on measures taken to resolve weaknesses in the Secretariat's procurement system. Our information on the extent to which the Secretariat has implemented reform measures was based on the findings of OIOS and the U.N. Board of Auditors, and interviews with U.N. officials.

To develop an organizing framework for reporting on U.N. procurement problems, the progress made in implementing reform actions, and our assessment of whether this progress has met the reform objectives of the High Level Expert Group on Procurement, we identified the objectives of the reform. To do this, we reviewed the Expert Group report, which contained a wide-ranging discussion of issues that needed to be addressed in the U.N.'s procurement system, including (1) integrity/fairness, (2) openness/transparency, (3) accountability, (4) professional workforce, (5) competition, and (6) value. These six elements were most clearly discussed in a report used by the Expert Group entitled Constraining Costs and Improving the Efficiency of United Nations Peacekeeping Procurement Operations. This report explained that these were the characteristics the United States identified for the Organization for Economic Cooperation and Development (OECD) as central to any well-structured procurement system. To ensure these characteristics were commonly recognized, we reviewed procurement policy documents of several other organizations and offices, such as the OECD (Support for Improvement in Governance and Management Policy Brief 3: Public Procurement), the United Nations (The Common Guidelines for Public Procurement by U.N. Organizations), the European Union (Application of European Procurement Law—Communication Adopted by the Commission on 27 November 1996), and several national government agencies. These entities all used similar descriptions about the objectives and characteristics of their procurement systems. We also discussed these characteristics with the Deputy Assistant

Administrator for Acquisition Policy for the U.S. government's General Services Administration and a private sector expert on procurement who was formerly the Administrator for Federal Procurement Policy for the U.S. government. Based on this work, we decided to use the six characteristics as the organizational framework for our reporting.

To identify the types of problems found by the High Level Expert Group on Procurement and U.N. oversight entities, we first reviewed the 1994-98 reports of OIOS and the Board of Auditors' Biennial Financial Reports covering the period 1988 through 1997. We found they had cited numerous problems, ranging from individual instances of noncompliance with procurement regulations to a systemwide failure to compete contracts. We summarized all the problems and entered them into a text query database. To organize the problems by type, we categorized each problem according to the definitions for the six elements of an effective procurement system—integrity, openness, accountability, workforce, competition, and value. For example, the finding that open tendering for major procurements above \$500,000 was rarely used was categorized as a problem in the area of competition. This provided us with concrete examples for each type of problem and gave us a sense of their nature and extent.

To identify the measures taken by the Secretariat to reform its procurement system, we examined the Secretariat's progress reports from 1995 to 1998 outlining the steps it had taken in response to the recommendations in the 1994 Expert Group report. The most recent Secretariat progress report was dated November 10, 1998. Where possible, we verified that these steps had been taken. For example, we obtained (1) a copy of the procurement manual to verify that it had been prepared and contained clearly defined policies and procedures, (2) policy documents on delegations of authority to verify that authority to field missions had been increased, and (3) organization and management charts and documents to verify that offices had been consolidated. We also observed the computer operation and supporting data entry sheets for the field inventory system to verify that an inventory of existing assets had begun. In addition, we reviewed statistics on the number and amount of contracts awarded without competition, examined the electronic filing for contract bids and awards on the internet, and followed up on the extent of training provided to procurement officers and the content of the training classes offered.

We assessed the Expert Group's report for its overall objectives, and we analyzed and classified many of its specific recommendations by the characteristics of an effective procurement system. We then analyzed

OIOS and other reports on the extent to which the Secretariat had implemented the recommendations. The latest OIOS report on implementation of the recommendations was dated March 5, 1998. We updated this information by interviewing OIOS and Board of Auditors officials on their assessment of whether the Secretariat had taken further steps. We supplemented this assessment by reviewing reports that included procurement issues published in 1998 by OIOS and the Board of Auditors and seeing if problems still occurred in the areas where the Secretariat had implemented reform measures. We interviewed officials from the U.N. Board of Auditors, OIOS, and Procurement Division staff as well as knowledgeable Secretariat officials, such as the Assistant Secretary-General for Central Support Services and the Under Secretary-General for Management to discuss the steps that had been taken to reform the procurement system.

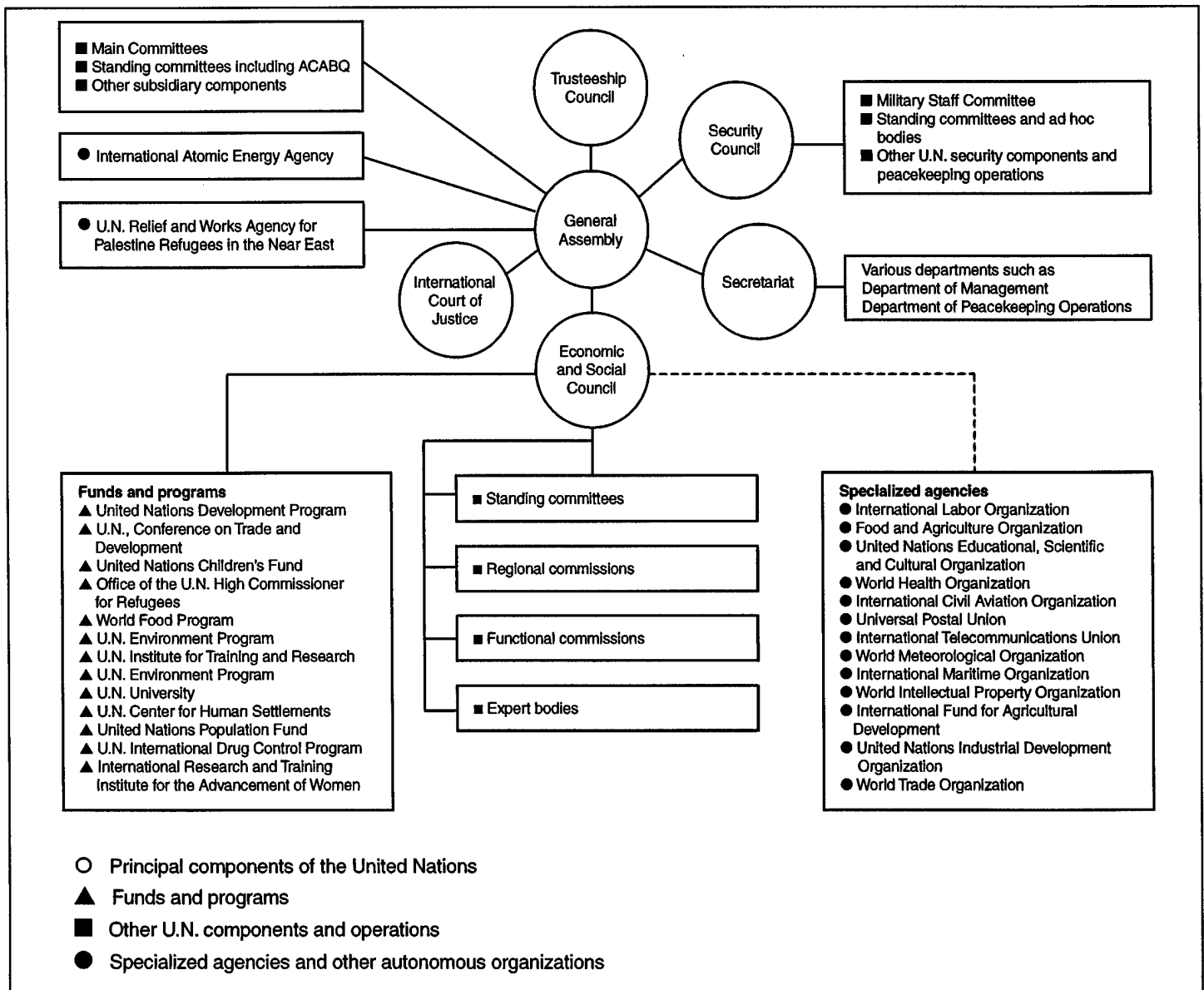
We performed our work from July 1998 to January 1999 in accordance with generally accepted government auditing practices.

The U.N. System

The U.N. system of organizations covers a wide variety of organizational units, including offices, departments, centers, specialized agencies, funds, and programs that vary considerably in size and mission. The U.N. General Assembly, consisting of almost all nation states, is the major representative body of the U.N. system and works with the other principal components of the United Nations, such as the Security Council and the Economic and Social Council. The Specialized Agencies are also considered part of the U.N. system, although each has its own charter. (See fig. II.1.)

Appendix II
The U.N. System

Figure II.1: The U.N. System



Legend

ACABQ=Advisory Committee on Administrative and Budgetary Questions

Source: U.N. Documents

The U.N. Secretariat's Procurement Process

Goods and services procured by the Secretariat through its normal process involves multiple steps depending on the size of the contract, including entering information about the procurement into a database. The process is outlined in figure III.1, which provides a flow chart of the process, and is described in table III.1, which lists the individual steps keyed to the flow chart.

Appendix III
The U.N. Secretariat's Procurement Process

Figure III.1: Flow Chart of the Secretariat's Procurement Process

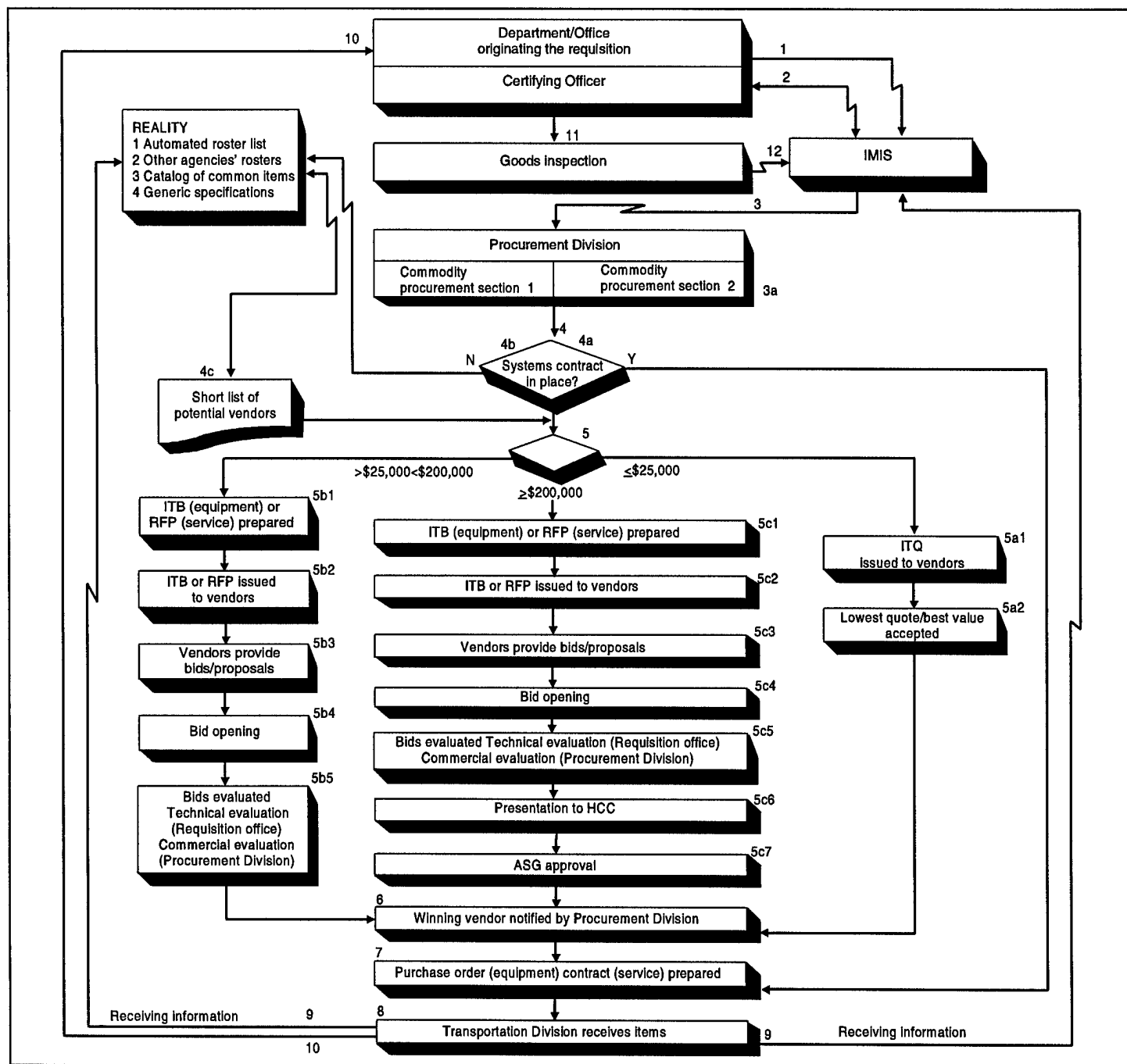


Table III.1: Steps in the Secretariat's Procurement Process

Step	Action
1	Department/Office originates requisition in Integrated Management Information System (IMIS)
2	Department/Office certifying officer certifies requisition to ensure funds are available, item is needed, and account for item is available
3	Procurement Division pulls requisition from IMIS
3a	Procurement Division assigns requisition to appropriate section
4	Check for existence of a systems contract
4a	Systems contract in place (move to step 7, issue purchase order/contract)
4b	No systems contract in place, check REALITY system for potential vendors
4c	Short list of vendors prepared (goal: to include as many vendors as possible)
5	Establish value of the procurement
5a1	Value of procurement up to \$25,000, issue request for quotes
5a2	Accept lowest quote/best value (move to step 7, issue purchase order/contract)
5b1	Value of procurement greater than \$25,000 and up to, but not more than, \$200,000, prepare invitation to bid/request for proposals
5b2	Issue invitation to bid/request for proposals to vendors
5b3	Vendors provide bids/proposals
5b4	Bid opening
5b5	Bids evaluated by requisitioning office and Procurement Division (move to step 6, select and notify winning vendor)
5c1	Value of procurement greater than \$200,000, prepare invitation to bid (equipment), request for proposals (service)
5c2	Issue invitation to bid/request for proposals to vendors
5c3	Vendors provide bids/proposals
5c4	Bid opening
5c5	Bids evaluated by requisitioning office and Procurement Division
5c6	Bids/proposals presented to the Headquarters Committee on Contracts
5c7	Assistant Secretary-General, Department of Central Support Services, issues approval of winning vendor
6	Winning vendor selected and notified
7	Purchase order (equipment)/contract (service) drafted, contract reviewed by Office of Legal Affairs
8	Transportation Division receives items purchased
9	Receiving information entered into REALITY system and IMIS
10	Goods delivered to requisitioning office
11	Requisitioning office inspects goods
12	Inspection report entered into IMIS

Source: GAO, based on U.N. procurement regulations and discussions with U.N. officials.

Comments From the Department of State



United States Department of State

Chief Financial Officer

Washington, D.C. 20520-7427

24 1999

Dear Mr. Hinton:

We appreciate the opportunity to review your draft report on United Nations procurement reform, GAO/NSIAD-99-71, GAO Job Code 711344.

The Department previously provided technical changes directly to your staff. Enclosed are the Department's formal comments.

If you have any questions concerning this response, please contact Ms. Julia Albrecht, Bureau of International Organization Affairs, UN System Administration (IO/S) at (202) 736-4826.

Sincerely,

A handwritten signature in cursive script that reads "Bert Edwards".

Bert T. Edwards

Enclosure:

As stated.

cc:

GAO/NSIAD – Mr. Miyabara
State/IO/S – Ms. Albrecht

Mr. Henry L. Hinton, Jr.,
Assistant Comptroller General,
National Security and International Affairs,
U.S. General Accounting Office.

Appendix IV
Comments From the Department of State

Department of State Comments
on the GAO Draft Report on Procurement Reforms,
GAO/NSIAD-99-71, Job Code 711344

The Department has strongly supported procurement reform in the UN since the early 90's when the UN was clearly not equipped to provide effective and efficient support for its greatly expanded peacekeeping operations. The Department was instrumental in placing a U.S. Government procurement expert on the High-Level Expert Group on Procurement. We therefore welcomed GAO's review of the status of procurement reform, since it focused in part on recommendations of the Expert Group.

The Department supports GAO's observations concerning the work that remains to be done, for example, completion of the training of field mission staff and formalization of procedures for handling bid protests.

In regard to GAO's observations on the UN's progress on reform, the Department believes that progress should have been better highlighted in the report. There has been significant progress since issuance of the Expert Group's recommendations, as noted by the UN's independent internal oversight office. For example, 90% of headquarters staff now have the professional background required, and the percentage of competitively bid contracts has risen from 31% in 1994 to 82% in 1998. However, the structure and tone of the report tends to downplay the progress that the UN has achieved.

Comments From the U.N. Secretariat

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

United Nations Nations Unies

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CABLE ADDRESS - ADRESSE TELEGRAPHIQUE: UNATIONS NEWYORK

Office of the Under-Secretary-General for Management

REF. SAREFORMGAO/LETGAORE.FIN

25 March 1999

Dear Mr. Johnson,

Thank you for providing us with the opportunity to comment on your draft report on United Nations procurement reforms.

We are pleased that the United States General Accounting Office (GAO) has recognized the considerable progress made in respect of procurement reforms in the Secretariat of the United Nations. As the Secretary-General has previously stated, reform is an on-going process and not a one-time event. We will continue our procurement reforms, as part of the overall reform programme initiated by the Secretary-General.

We feel that the GAO may have experienced some difficulties in conducting a review of such wide scope. It appears that there was an over-emphasis on the past problems identified by the Office of Internal Oversight Services (OIOS) and the Board of Auditors, rather than the measures taken to address them. While being aware of the constraints under which the GAO conducted its review, we consider that the team could have developed a more comprehensive view of the subject through more substantial research of publicly available documents, such as those of the General Assembly reflecting the discussions of the legislative bodies, where the issues were raised and remedial actions undertaken by the Secretariat were fully explained. Numerous discussions have taken place since we received your draft report, and I understand that the final report will reflect the clarifications provided by my Department.

As regards grievances arising from the competitive bidding process, we agree that there is a need to have a formal procedure, and are actively reviewing this to ensure that any grievance process established will not unduly influence the procurement process and will be consistent with our Financial Regulations and Rules. We are committed to ensuring transparency and integrity in all of our processes, including those of procurement.

Having made significant progress to address the major systemic issues identified by the High-Level Expert Group on Procurement, we are actively working to address the few remaining operational issues. These efforts should improve compliance, through better planning and training, a better performance measurement system and more comprehensive policy guidelines. While recognizing the need for further improvements, we would like to point out that the measures we have already taken in those respects are more advanced than indicated in the GAO's report.

../2

See comment 1.

- 2 -

See comment 2.

For example, procurement planning has already been in place for some time, particularly in the area of peace-keeping, where at the beginning of the budget cycle, the annual requirements for major equipment are forecast as part of the budgetary process in order to properly plan the procurement activities. In addition, the Department of Peace-keeping Operations and the Procurement Division meet monthly to work on planning prioritization and to address operational issues.

See comment 3.

We have made inroads in developing a performance measurement system. For example, there has been a comparative year-to-year review of operating costs as a percentage of total procurement, as indicated in the Secretary-General's report on procurement reform (A/53/271). Additional performance indicators are currently being devised to improve operational efficiency.

See comment 4.

With regard to policy guidelines, we have already issued a new Procurement Manual, which provides detailed guidelines for procurement both at Headquarters and the field missions. The Manual is currently being updated. A copy of the Manual has been provided to the team members of the GAO.

See comment 5.

Our efforts to improve training and career opportunities continue, including developing a system to share and coordinate training resources, as mentioned in the GAO report. I would like to advise that we have adopted a dual track approach in the training of procurement officials. One is for Headquarters procurement personnel to ensure that they acquire the latest procurement knowledge and skills; the other one is for field procurement staff to ensure they are trained thoroughly at Headquarters before being sent to field assignments.

See comment 6.

The GAO report has recognized that we have strengthened competitive practices in procurement. At a time when the procurement volume has been decreasing (the Procurement Division purchased approximately \$309 million in 1997 and \$247 million in 1998), we are taking additional measures to ensure open competition. While referring to some cases of shortcomings in the bidding process identified by OIOS, the GAO has indicated that they are issues of compliance and do not represent systemic problems, since there are clear rules and regulations in place.

I am confident that, with our new procurement management team and new management structure, further progress will be made in the areas that the GAO has suggested for improvements in this important UN activity.

Finally, I would like to thank the GAO team for sharing with us useful materials on performance measurement.

Sincerely yours,



Joseph E. Connor
Under-Secretary-General for Management

Mr. Harold J. Johnson, Associate Director
International Relations and Trade Issues
United States
General Accounting Office
Washington D.C. 20548

The following are GAO's comments on the U.N. letter dated March 25, 1999.

GAO Comments

1. Our report is based on a complete review of the debate on activities pertaining to the Secretariat's procurement reform efforts, including documents from the General Assembly, Advisory Committee on Administrative and Budgetary Questions, and the oversight offices; testing of some reform implementation; and additional information provided by U.N. officials. Our review of this information demonstrated that while the Secretariat has taken action on most of the Expert Group's recommendations, in some instances, these actions have not been fully implemented.
2. We found that some steps had been taken to do procurement planning; however, as acknowledged by U.N. procurement officials, a comprehensive procurement planning process was not yet in place. Audit officials also said that although some peacekeeping procurement planning was occurring, they had not seen evidence that procurement planning had become a routine activity within the Secretariat. The report has been modified to recognize what has been accomplished in the area of procurement planning.
3. The report has been modified to reflect the progress that has been made to develop a performance measurement system. However, it is important to recognize that collecting information on one indicator does not mean a performance measurement system is in place.
4. Our draft report acknowledged that a new procurement manual had been issued. However, we reviewed the revised manual and found that certain elements recommended by the Expert Group, such as a mission statement and step-by-step discussions of procedures for field personnel to perform their duties, were not incorporated into the manual.
5. Our draft report acknowledged that the U.N. Secretariat had taken steps to improve the training of its procurement staff. However, at the time of our review, a formal and comprehensive training curriculum, as recommended by the Expert Group and U.N. audit organizations, had not been developed.
6. Although competitive practices have been strengthened, we agree with the Board of Auditors that the time period vendors have to bid on U.N. contracts needs to be clearly written into the financial regulations and that

open tendering for large contracts should be routinely used. We believe these shortcomings are systemic weaknesses and not simply matters of compliance. On the other hand, the audit findings about the failure in one location to conduct or document market surveys and assessments of quotes were issues of compliance, which we recognized.

Major Contributors to This Report

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